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# Original Research Article

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Kenya

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# Influence of Access to Credit on the Financial Performance of Youth-Owned Enterprises in Kirinyaga County in Kenya

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## Abstract

Youth-development funds play a great role in availing resources to the youth so that they can start their own enterprises with an aim of being self-reliant. The government of Kenya through the youth enterprise fund finances viable youth enterprises in the country. Despite the effort made by the government in the provision of funds, the youth-owned enterprises continue to perform poorly. The main objective of this study is to evaluate the influence of access to Youth Enterprise Development Funds on the financial performance of youth-owned enterprises in Kirinyaga County. The specific objectives are to determine how the type of enterprise, ease of accessing funds, credit offered, and interest rate relates to the profitability of youth-initiated enterprises. The significance of the study is to generate knowledge and information on the influence of youth enterprise development, assist the policy makers, and program implementers, which is useful to students in this field of business as the findings will form bankable empirical literature. This study is based on permanent income theory. The target population was 525, and a sample of 225 was chosen using a stratified sampling method to achieve a representative sample from the chosen geographical areas of the study. Data were analyzed on the SPSS software for both descriptive and inferential statistics. The findings showed a p-value of 0.0232 for the type of enterprises, 0.0243 for the ease of accessing funds, 0.0214 for the credit offered, and 0.0244 for the interest rate. This showed that the relationship between the dependent and independent variables was significant. The presentation was undertaken using frequency tables and charts. The recommendations are that there is a need for enhancement of access to credit to youth-owned enterprises so that they can become more profitable.

**Keywords:** Youth; Enterprise fund; Access to credit; Financial performance.

## 1. INTRODUCTION

With the youth population in the world being estimated to be 1.6 billion, many nations have set up a youth-development fund to solve unemployment among them. However, despite this effort by many economies globally to empower the youth in their enterprises, more than 20% of a country's population comprises young people whose enterprises are performing poorly (GoK, 2012).

It is widely believed that the widespread unemployment in most developed and developing countries is due to underperformance of the youth enterprises, thus the inability to spur growth in Micro and Small Enterprises (Maisiba and George, 2013). After the 2008 world financial crisis, unemployment has become a big concern to every government all over the world, as the number of unemployed youth increased to 76 million, making countries globally to strategize on how to fund the youth for startup enterprises, as well as strengthening those already existing, but these enterprises are still underperforming (Fanuel, 2010). World Bank report (2011) projected that 73.4 million (12.6%) young people were expected to be out of work in 2015, representing an increase of 3.5 million between 2007 and 2013, and the youth-development fund was perceived to be a solution to this problem, but it has not achieved the intended goal yet. In Britain, for instance, the government has a program to collaborate with existing businesses, financial institutions, and other government departments to make sure that the environment is right for youth business enterprises to start up, grow, and succeed. However, the performances of those enterprises have not been very impressive.

Katura Youth Enterprise Center (KAYEC), a community-based organization in Namibia, which provides entrepreneurial skills, business premises, and advisory services to youth entrepreneurs (Odhiambo, 2013),

has tried hard but with no good results to make youth-owned enterprises more robust. African countries have been the victims of urban riots due to high levels of youth unemployment, with the most notable case being Morocco, despite having the highest budget of youth-development fund (Saunders *et al.*, 2009; Wanjohi and Mugure, 2010).

The Kenyan government transformed the Youth Enterprise Development Fund (YEDF) into a State Corporation but has not assisted much in making youth-owned enterprises perform better (Fanuel, 2010). The government has released over Ksh. 4.4 billion to the fund and trained over 250,000 entrepreneurs and financed over 260,000 enterprises (YEDF; GoK, 2012). A youth enterprise fund is a tool for job creation in line with Vision 2030 development policy. According to Republic of Kenya (2016), a total of Ksh 58,195,957 is being disbursed in Kirinyaga, making it the second highest allocation in the region after Nyeri, which had an allocation of Kshs 108,636,800. But the youth-owned enterprises don't seem to be performing well despite the high allocation of funds.

## 2. OVERVIEW OF THE YOUTH ENTERPRISE FUND-THEORETICAL REVIEW

In an effort to explain the access to fund by the youth-owned enterprises, some scholars have advanced theories related to this area, and in this study, permanent income theory was applied. The proponent of this theory was Friedman in 1957. This theory states that people spend money depending on the levels of their expected long-term average income (Friedman, 1957). The level of expected long-term income is considered in perspective of the level of permanent income that can safely be spent. A youth will only save if the current income is higher than the anticipated level of permanent income in order to guard against declines of income in future due to deterioration of business performance. Based on this theory, the youth can access money for the business that serves as a permanent income. When the permanent income from the YEDF is low, the business may suffer, the consequence being low profit of the youth-owned enterprises. The access to credit by the youth is important, since it makes the business thrive even more. But where the access to credit is limited according to this theory, the permanent income reduces, causing low profit to the youth-owned enterprises. According to this model, an availability of funds influences the level to which the business can grow, thus being important in making the youth-owned enterprises progress at a higher rate. Permanent income is determined by a consumer's assets—both tangible and intangible, where the young entrepreneurs succeed in getting more fund, thus increasing the chances of growing the business. When the disposable income of the youth diminishes, the progress of their business is hampered, thus reducing the profitability of the youth-owned enterprises. The conceptual framework for this study suggests that the dependent variable has a relationship with the independent variable, and this shows that the access to credit relates to the financial performance of youth-owned enterprises.

## 3. METHODS

### 3.1. Research Design

The study adopted descriptive survey design which according to Dawson (2009) allow the researcher to summarize, present, and interpret research data for the purpose of clarification. This type of survey allowed the researcher to collect data from a sizable population in a highly economical way. It involves a systematic collection of data on an entity or a group of entities or operations and gets inferences from what the data show. It involves the actual assessment of the characteristics of the whole population. This research design is flexible designs that protect bias and obtains maximum and accurate information. Yin (2009) observed that this design can be used to collect information about people attitudes, opinions, habits, and experience because of that the design was considered to be more appropriate for this study.

### 3.2. Target Population

The target population for this study, 525 youth-owned enterprises, had benefited from the YEDF. According to Republic of Kenya (2016), the youth enterprise fund in Kirinyaga County had funded youth enterprises as follows: 98 Motorcycle operators, 95 Agribusiness, 105 Retails shops, 112 Jua-kali Artisans, and 115 textiles enterprises.

### 3.3. Sample Size and Sampling Techniques

The population was distributed along various business sectors, and it was therefore not homogeneous. The Yamane (1967) formula was applied to compute the sample size from the population of 525, and the stratified random sampling method was used to select a sample from each stratum in proportion to its size. Systematic random sampling method was then used to select every second business after establishing an appropriate starting point from lists obtained from the county government of Kirinyaga until the size for each stratum was achieved.

$$n = \frac{N}{1 + N(e)^2}$$

where  $n$  represent the sample size,  $N$  is population size, and  $e$  is the level of precision.

$$n = \frac{525}{1 + 525(0.05 \times 0.05)}$$

$$n = \frac{525}{1 + 525 * 0.0025} = 525 / 2.315 = 227$$

The Yamane (1967) formula gave a sample size of 227, which was distributed in a stratified way as illustrated in Table 1.

### 3.4. Data Collection Instruments

Data were collected using a questionnaire with both closed- and open-ended questions with six (6) sections: A to E, and it was designed with a Likert scale ranging from 5 to 1. After pilot testing for reliability and validity, it was administered to the sample that was chosen for the study and the responses recorded appropriately.

The pilot study helped to check on validity and appropriateness of content of the instruments. According to Borg and Gall (1989), validity of an instrument is improved through an expert judgment. Thus the researcher forwarded the research instruments to one of the colleagues and a research expert, who validated them; this is in addition to the assistance from the supervisor, on the ways to improve the instruments used in data collection. There were three types of reliability in quantitative research, which regards to the degree that the measurement repeatedly undertaken remained the same. It also determines the stability of a measurement over time—the similarity of the considered measurements. Before the actual data collection, piloting of questionnaires was undertaken in an area outside the one considered for the final study.

## 4. DATA ANALYSIS AND DISCUSSION OF FINDINGS

### 4.1. Demographic Information

The target clientele were motor cyclists, shop retailers, Agribusiness farmers, Jua kali artisans, and cloth-related businesspersons, who are very much involved in youth fund. The incorporation of this clientele has

**Table 1. Sample Size and Its Distribution.**

Type of business	Stratum population	Sample size
Motorcycles	98	43
Agribusiness	95	40
Retail shops	105	46
Jua kali	112	48
Textile	115	50
<b>Total</b>	<b>525</b>	<b>227</b>

made these entrepreneurs to cope with the financial management, whereby the market is open to competition in terms of profitability and business growth.

**4.2. Effects of Access to Credit on Financial Performance of Youth Enterprises**

The access of credit has an effect on financial performance of youth enterprises (Warue, 2012). This study shows that most of the respondents strongly agree that most of the entrepreneurs are unable to access credit easily. This is supported by 50.6% of the respondents. A good percentage of respondents (34.2%) agreed that youth entrepreneurs are unable to access credit easily.

The youth are able to advance their businesses when the fund is accessible. This view was supported by the study done by Elumba (2008), who stated that youth fund is easily available but only for the deserving youth. This is also supported by Wachira (2012), who stated that the access of funds play a great role for the youth-owned enterprises.

The responses were analyzed in accordance whether the interest rate is reasonable to youth entrepreneurs or not. The results showed that the majority of responses (i.e., 51% of the respondents) strongly agreed that the interest rate is reasonable. A relatively big number agreed that the interest rate was reasonable as per 24.3% of the respondents. Maubi and Jagongo (2014) supported the findings of this study and concluded that there are other factors to determine the cost of finance apart from the interest rate. Saleemi (2009) indicated that the interest rate needed to be adjusted downward if youth-owned enterprises are to prosper. The responses were analyzed in accordance with statement that access to credit is dependence on type of enterprise. Majority of the respondents strongly agreed that access to credit depend on type of enterprise. This is as per 50% of the respondents. Equally another 30% of the respondents agree that interest rate is influenced by type of enterprise.

The responses were analyzed in accordance with the collateral requirement effects on access to credit. Majority of the respondents (43.8%) strongly agreed that credit offered without collateral improve business enterprises financial position while only 37.8% of the respondents who agreed with the statement as shown in Table 2.

**5. EMPIRICAL EVIDENCE**

Table 3 shows the chi-square statistic for access to credit and performance of youth enterprises, which is given as 7.522 with a *p*-value of 0.011. The *p*-value is less than 0.05, which makes the researcher conclude that there is a statistical significance between the access to credit and the performance of youth enterprise. The findings in this study agree with the reviewed empirical studies. The access to credit is very critical in performance in youth-owned enterprises.

**Table 2. Effects of Access to Credit on Financial Performance of Youth Enterprises.**

	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Not sure</b>	<b>Agree</b>	<b>Strongly Agree</b>
Scale	1	2	3	4	5
Percentage	%	%	%	%	%
Easy access to credit assist to establish an Enterprise	4.7	7.5	3.1	34.2	50.6
Interest rate charged affect the financial performance of an enterprise	11	11	4.7	24.3	51
Type of enterprise affect the amount loaned hence financial performance	7	8	5	30	50
Credit offered without collateral improve business enterprise financial performance	10.9	3.5	4	37.8	43.8

**Table 3. Chi-Square test: Access to Credit and Performance of Youth Enterprises.**

Chi-Square test	Value	DF	Asymptotic Significance (2-sided)
Pearson chi-square	7.522	2	0.011
Likelihood ratio	7.645	2	0.032
Linear-by-linear association	0.014	1	0.922
No of valid cases: 201			

### 5.1. Hypothesis Testing

**H0: There is no significant relationship between access to credit and the financial performance of youth-owned enterprises.**

The findings of this study are as follows: (i) easy access to credit had significant association with the performance of youth-owned enterprises with  $p$ -value of 0.0243 ( $<0.05$ ). (ii) Interest rate charged was also found to have relationship with financial performance of youth-owned enterprises with a  $p$ -value of 0.0244. (iii) Type of enterprise also had association with the performance of youth-owned enterprises with  $p$ -value of 0.0232. (iv) Credit offer without collateral has association with the performance of those enterprises with a  $p$ -value of 0.0244.

Based on the findings from the hypothesis testing, the findings indicate that all the parameter in the variable of access to credit are statistically significant since their  $p$ -value were less than 0.05, which is a significance level. They showed that there is a relationship between the access to credit and performance of financial performance of youth-owned enterprises. This made the researcher to reject the null hypothesis that indicated that there is no significant relationship between the access to credit and financial performance of youth-owned enterprises. The study shows that there is significant relationship between access to credit and the financial performance of youth-owned enterprises.

Waweru and Kalani (2009) indicated that access to credit is very important if any enterprises are to prosper.

## 6. CONCLUSION

This study shows that most of the respondents strongly agreed that most of the entrepreneurs are not able to access credit easily. This is supported by 50.6% of the respondents. A good percentage of respondents (34.2%) agreed that youth entrepreneurs are not able to access credit easily. The findings showed that access to credit play an important role to the growth of the business.

The findings of this study agree with the findings of other researchers, such as Wachira (2012), indicating that there are many constraints to do business in Africa, since 77.7% of Sub-Saharan African youth rely on personal or family funds to start businesses. According to the World Bank and IFC (2011), the costs of starting a business average 87% of per capita income in Sub-Saharan Africa. As this study indicated, access to finance is considered as the main barrier to entrepreneurship in Sub-Saharan Africa. A major constraint to the growth of youth-owned and operated enterprises is the lack of access to finance. The results from this study have shown that access to credit, loan repayment, financial literacy, and financial planning relate with the financial performance of youth-owned enterprises. The access to credit has a relationship with the performance of youth enterprises, and this was showed from the results of the study. This implies that the availability of youth-development fund is important and is of much help to the youth that it assist them to have the finances necessary for the business growth.

### 6.1. Importance/Benefits of the Study

The findings of study generated knowledge and information on the influence of YEDF on financial performance of youth-owned enterprises. The research findings will also assist the policy makers and program implementers on the best way of implementing youth-based programs based on the actual outcome of the

research. The findings would also be useful to students in this field of business as the findings form bankable empirical studies. The findings of this study would also bring to the surface of the efficacy of YEDF on enhancing performance of youth-owned enterprises. The result of the study will provide the views of the role of YEDF in promoting the growth of youth enterprises that the youth and the government will use to enhance its effectiveness.

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